Public Service Commission of Wisconsin
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PUBLIC SERVICE COMMISSION OF WISCONSIN

Memorandum

December 3, 2014

FOR COMMISSION AGENDA

TO: The Commission

FROM: Robert Norcross, Administrator
Jeffrey Ripp, Deputy, Administrator
Carol Stemrich, Assistant Administrator
Jolene Sheil, Director, Focus on Energy
Gas and Energy Division

RE: Quadrennial Planning Process I 5-GF-191

Quadrennial Planning Process I – Renewable Energy Funding

Suggested Minute: The Commission directed the Gas and Energy staff to draft an order in accordance with its discussion.

Background

On April 26, 2012, the Commission issued an Order in docket 5-GF-191 that required that the annual renewable energy incentive level for 2012, 2013, and 2014 not exceed $10 million in a given year. (PSC REF#: 163778.) In that and a subsequent order, the Commission set forth specific criteria for the program administrator to follow in allocating renewable energy incentives. (PSC REF#: 191060.) This memorandum is to inform the Commission that the Program Administrator expects that renewable spending will not be in compliance with several of the directives of the Commission and to request direction from the Commission as to how to proceed.

One of several additional renewable energy program requirements in the 2012 Order was to allocate, for program years 2013 and 2014, 75 percent of total incentives to Group 1 technologies (biomass, biogas, and geothermal) and 25 percent be allocated to Group 2 technologies (solar photovoltaic, solar thermal, and wind). This allocation emphasizes Wisconsin's strengths, which are agriculture, food processing, and paper production enterprises and the vast amount of waste they produce that can be used to create cost-effective renewable energy. That Order also stipulated that renewable energy incentive funding is contingent upon Focus on Energy's (Focus) overall benefit-to-cost ratio being at least 2.3 (inclusive of renewables) and requires that the inclusion of renewable energy technology incentives cannot reduce energy savings by more than 7.5 percent in comparison to an efficiency-only program. Per the decision, dollars that are not spent on renewable energy projects under the $10 million cap are allocated to the significantly more cost-effective Focus programs.

In June 2013, Chicago Bridge and Iron (CB&I), the Focus Program Administrator, provided the Commission a memorandum that requested clarification of particular issues in the Order. As a result, the Commission met in September 2013 and a subsequent Order was issued on September 26, 2014, to clarify and modify the issues in question. (PSC REF#: 191060.)

Four specific points from this Order (Order Points 4, 5, 6, and 9) are relevant for the current discussion:

4. The 75/25 percent split between Group 1 and Group 2 technologies shall be maintained on an annual basis;

5. The 75/25 split between Group 1 and Group 2 technologies shall be maintained within a range of plus or minus 5 percent;

6. Renewable energy incentives paid out shall be used to determine whether the spending split between Group 1 and Group 2 technologies is being achieved; and

9. The Program Administrator shall take steps necessary to ensure that the Commission's Order of April 26, 2012, as clarified and modified by this Order, is met.

Group Two Technologies – Prescriptive Renewables

As part of the 75/25 split between Group 1 and Group 2 technologies, CB&I allocated $450,000 in both 2013 and 2014 for prescriptive solar photovoltaic (PV) projects in the residential and small commercial sectors. CB&I used a benefit-cost calculator to determine that $450,000 could be spent annually on prescriptive incentives for Group 2 technologies without violating the criteria on maintaining an overall benefit-cost ratio of at least a 2.3 and not reducing Focus energy savings by more than 7.5 percent in comparison to an efficiency-only program.

In 2013, CleaResult, the Residential Rewards Implementer who managed these prescriptive funds, used a reservation system to track the prescriptive solar PV dollars and posted a notice on the Focus website indicating how much was still available, how much had been reserved, and how much had been paid. This allowed customers and trade allies who were working on projects to determine if incentive dollars were still available before starting a project. Once the project was complete, the application was submitted and the customer was paid.

Based on feedback from trade allies, a reservation system was not used in 2014. Therefore, the Focus website only posted the incentive dollars available based on completed and paid projects. There was no mechanism to track the number of incentive dollars in the pipeline[1] for processing. To further exacerbate the problem, CleaResult did not update the website for a several-week period in September, a period in which funds were being rapidly depleted.

On October, 28, 2014, CB&I notified Commission staff that an additional $50,000 would be needed to cover an estimated overrun in the residential prescriptive solar incentives. At the same time, Commission staff was informed that two Group 1 projects planned for in 2014 would slip to 2015. Despite the two Group 1 projects not being completed in 2014 and the additional

[1] Pipeline projects are those projects for which a customer has signed a contract for installation but an application has not yet been submitted to the Focus Program.

$50,000 in prescriptive solar PV, CB&I would be in compliance with the Commission's Order Points outlined above. On October 28, 2014, after reviewing CB&I's request, Commission staff approved CB&I's request to shift funding from the business portion of the Renewable Rewards Program to the residential portion of Renewable Rewards Program to cover the estimated cost overrun.

On October 29, 2014, CB&I posted a notice on the Focus website and sent emails to renewable trade allies indicating that renewable incentives had been exhausted for the year. Commission staff directed CB&I and CleaResult to talk with the two main solar trade allies to get an estimate of how many customers already had projects in the pipeline with an expectation of receiving a Focus incentive. Based on these discussions, CB&I and CleaResult estimated that approximately $200,000 would be needed to cover the projects that were in process before October 29, 2014. On November 14, 2014, CB&I requested a total of $300,000 in order to cover projects that may come in from trade allies, $200,000 for known projects, and a 50 percent buffer. Even at $200,000, the Group 1 and Group 2 split would be at 65/35, which is more than the 5 percent margin allowed for in the Order. With the additional $200,000, estimated expenditures for Group 1 are $2,706,072 and for Group 2 are $1,441,327. Therefore, CB&I will not in compliance with the 75/25 Group 1 and Group 2 technology split in 2014.

Analysis

Commission staff has identified several alternatives for the Commission to consider. All of the alternatives prevent the shifting of energy efficiency dollars to meet the prescriptive solar PV cost overrun. One option is to shift unspent Renewable Energy Competitive Incentive Program (RECIP) funds to cover the shortfall (up to $300,000). RECIP is used primarily for large-scale Group 1 technologies and a few larger Group 2 technologies. Since two projects that were budgeted for in 2014 will not be completed in 2014, there is approximately $400,000 available.

A second option is for the Commission to determine that 2014 CB&I administrative dollars be used to meet the shortfall in solar PV funding. Per the requirements of the SEERA-CB&I contract (docket 9501-FE-116), CB&I notified Commission staff on December 1, 2014, that it estimates administrative carryover from 2014 to be $350,000. Also, Attachment G of the same contract, section 3.2 states that, "Any unspent funds within a given year may be rolled into the subsequent year. The Commission and the Contract Administrator, with input from the Program Administrator, will determine how unspent dollars will be allocated." Per the September 26, 2013, Order, it is the responsibility of the Program Administrator to ensure Order Points are met. However, CB&I estimates that approximately $5.9 million in program funds will carry over into 2015. This option presents a risk of CB&I not having sufficient administrative dollars to manage the increased 2015 program budget resulting from this carryover.

A third option is to cover the prescriptive solar PV incentive overrun through a combination of CB&I administrative carryover from 2014 unspent 2014 RECIP funds. One reasonable split would be half and half. This option requires CB&I to bear some responsibility for the cost overrun while keeping a portion of the 2014 carryover to manage the additional program dollars that are carrying over from 2014 as well.

Commission Alternatives

Alternative One: Unspent 2014 RECIP funds shall be used to provide incentives to residential customers that have a signed contact, as of October 29, 2014, for a solar PV installation.

Alternative Two: CB&I administrative carryover from 2014 shall be used to provide incentives to residential customers that have a signed contract, as of October 29, 2014, for a solar PV installation.

Alternative Three: Incentives to residential customers that have a signed contract, as of October 29, 2014, for a solar PV installation shall be honored, with half of the dollars coming from unspent RECIP funds from 2014 and half from the CB&I administrative carryover from 2014.

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Key Background Documents
Order (signed & mld 4/26/12) - PSC REF#: 163778
Order (signed & served 9/26/13) Callisto Dissent - PSC REF#: 191060